PRIVATIZATION AS A TOOL FOR ECONOMIC SELF RELIANCE

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Abstract

The topic "Privatization as a tool for economic self reliance" was carefully reviewed and studied through theoretical method. It was obvious that for any economy to achieve a good success, there is the need to eliminate wastages and inefficiency, which over time has characterised the public sector of the country. It is necessary for the government to bring in "invisible hands" to assist and to achieve economic self-reliance. The government is to act as a regulator and not the major provider of goods and services in the economy.

Introduction

The emphasis on privatization came into being as a result of the perceived poor performance of the public sector. Arguably, the motivational factor is heightened competition, which instills discipline in producers thereby forcing them to become more efficient. The privatization policy emphasized the replacement of state control of the economy with private sector investments and greater operation of market forces. The need to reduce the burden of dependency by public enterprises on public funds and increase the efficiency of government owned companies operating at a loss, the option for privatization and commercialization as an integral part of Structural Adjustment Programme (SAP) was adopted (Unaimikogbo and Idehai, 1995). Privatization should not just be seen as the transfer of ownership to the private sector, but that the transfer should give substantive independent power to the private sector.

In most cases privatization arose as governments, tried to restructure their national economics and reduce the financial dependence of Public Enterprises (PEs) on the national treasury as well as increase efficiency and the effectiveness in service delivery of these enterprises, (Bala, 2004).

In Nigeria, privatization commenced in 1988 as part of the government adherence to the Structural Adjustment Programme (SAP) that was implemented in 1986, as part of the economic programme reform that the Federal Government introduced under the implementation of the conditionalities from International Monetary Fund (IMF). It was implemented because it was part of the conditionality given by IMF for debt - relief for the country.

Privatization should not be seen as a burden rather it should be conceived as a tool towards economic self-reliance and development within the operating economic system of any country. It is an instrument that is needed to assist in the elimination of wastages and corruption that have affected the economy for so long. Hence the topic privatization as tool for economic self-reliance. This paper is structured into four main sections i.e. section one introduction, section two meaning of privatization, section three privatization as economic self reliance, section four conclusion.

Meaning and Conceptual Issues of Privatization

According to the National Council on Privatization, "privatization is the process of changing the ownership of government companies (Public Enterprise to Private) to private ownership through the sale of the shares of such companies to individuals who will manage the companies efficiently and profitably". Thus, privatization is associated with the sale of government assets, as equity or shares in public enterprises. It therefore, involves the injection of private capital and management into public sector activity (Obadan, 2000).

Privatization in Nigeria was defined by Decree 25 of 1988 as the relinquishment of part of or all the equity and other interests held by government or its agencies in enterprises whether wholly or partly owned by the Federal Government. Privatization should lead to general and financial independence of the former public enterprises. The financial requirements of the privatized enterprise are to be raised from the money and capital market, during the post and privatization period, shareholders of the privatized company elect their directors and chairman without imposition by Government (Bala, 2004).

According to Ndekwu (1987), public enterprises are those establishments whose services or outputs are of utility to the generality of the public. They embrace all undertakings, which are directed by a branch, of government itself, or by a society that has been established by the government to direct such undertaking in the public interest (Onimode, 1988). Economic theory recognizes public ownership as a response to the failure of private market to secure efficient and equitable outcomes. But when a majority of these enterprises is state owned, the framework that stimulates competition and efficiently may be missing (Schwartz and Lopes, 1993). Therefore, by exposing public enterprises to competition, significant efficiency gains are likely to result.

The privatization programme of the country was to be implemented through public offer of shares, sales of assets by public tender, private placement, deferred public offer and management buy out (MBO). The first three methods have been frequently used, according to the Technical Committee on Privatization and Commercialization (TCPC) on the most predominant method has been the public offer of shares, through the Nigerian Stock Exchange (NSE). As at March 1993, the TCPC had successfully completed work on 55 public enterprises as shown in Table 1 as first - round privatization of public enterprises.

Table 1: Privatization by Method uf Offer as at March 1993

Method	Number
Privatization through public offer of shares	35
Privatization through the sale of asset by public tender	8
Privatization through private placement	7
Privatization through deferred public offer	4
Privatization through management buy out	1
Total	55

Source: UBA, Monthly Business and Economic Digest, 1993, Vol. 16, No. 8. August P. 2.

The privatization programme made some noticeable achievements such as:-

The sales revenue from 55 privatized enterprises amounted to £13.3 billion.

The enterprises' profit before tax raised four - fold while average cash dividend payout rose by 363.3 percent (Obadan, 2000).

It raised the market capitalization of the Nigerian Stock Exchange from N 12.0 billion in 1989 to N285 billion in 1996.

The shift in sources of borrowing from government to the capital market was a big relief to the government budget.

The second phase of the privatization programme started in 1993 tagged; "Guided Privatization and Commercialization". The legal framework was put in place with the promulgation of the Public Enterprises (Privatization and Commercialization) Decree No. 28 of 1999. The decree provides for a recognised institutional framework to include the establishment of the National Council on Privatization (NPC) and re-establishment of the bureau of public privatization and commercialization programme. The decree provides for the full privatization of 25 public enterprises such as the oil sector, cement companies, banking, Agro-allied, motor vehicles assembly and Hotel, See table II.

Table II: Public Enterprise Earmarked for Full Privatization in the Second Round

No	Sector	Number of enterprise
1.	Oil (marketing)	3
2.	Cement companies	6
3.	Commercial and merchant banks	5
4.	Agro-allied companies	3
_5^__	Motor vehicles and assembly companies	6
-^	Hotel	2
	Total	25

Source: Nigeria Public Enterprises Scheduled for (Privatization and Commercialisation) Decree 1999.
Note: Under full privatization, the Federal Government post-privatization share ownership holding would be nil.

As the full privatization was going on the partial privatization was also in progress and the percentage shareholding after privatization under partial privatization was, strategic or core investor -40 percent maximum, Federal Government — 40 .percent maximum and Nigerian public 20 percent. Thirty-seven public enterprise were slated for partial privatization in the second round such as the telecommunication, electricity, petroleum, fertilizer companies, Gas, machines tools, steel aluminum, mining and solid minerals, Insurance Companies, Transport and Aviation Companies, paper companies, and sugar companies.

With the introduction of structural adjustment programme, the government was expected to act as a regulator and not the major provider of goods and services in the economy. Apart from the huge financial drain on government resources due to the financial obligations incurred by governments in Nigeria on public enterprises, it became imperative for government to sell off their interests because public enterprise had not lived up to expectation. Moreover, public enterprises in Nigeria have been grossly inefficient and ineffective in providing services to the public. There is no real commitment on the part of public enterprise management to monitor the performance and smooth operations of public enterprises. With their monopolistic nature, they prevent the entry of other firms hence lack of competition,

Privatization as Economic Self Reliance

In Nigeria, the oil boom of the early seventies gave Nigerian leaders the financial where withal for undertaking expenditure in the public sector. Unfortunately, the glut in the oil market in the early 1980s eliminated any chances of the country recovering from the fall in oil prices, which started in the late 1970s. The reduction in the government revenue created the necessity for government to come up with economic programmes that will enable it reduces expenditure and final new sources of revenue. With the implementation of the Structural Adjustment Programme (SAP) from 1986,, privatization of government owned enterprise became one of the strategies for reducing government's involvement in the economy (Bala, 2004).

The primary objectives of privatization as stated in the National Policy framework include:-

-• To restructure and rationalize the public sector as well as increase sector participation --privatization reduces the size of the public sector since government obligations are transferred to the private sector.
To improve the performance of public enterprises, the private sector allows for efficiency, transparency and accountability as there are very little means for corruption or mismanagement of finances and moreover, innovation becomes the watch word. To reduce dependence on the treasury (through the removal of subsidies, grants and other subventions) as well as raise additional revenue for the government, saved funds are available for investment in other social sector of the economy.

Going by the objectives above, it shows that privatization increases the role private financial institutions and agencies play in the growth and development of the economy since it encourages borrowing and depending on the capital market for funds.

Privatization of public enterprises (PEs), enables agency reforms and restructuring of the economy. Through this, it encourages competition and a better-regulated environment. This is to decrease the likelihood of replacing public monopoly with private monopoly.

With these, Nigeria's economy is becoming more deregulated, competitive and efficient in their approach to service delivery and this competition is aiding the quality of goods and services being provided. In addition, it has made for reduction in the price of products and services as new and innovative ways are introduced in the productive sector.

Privatization to Nigerian economics enables the transfer of technical and managerial know-how, and the improvement in the skills level of their local labour force. With the takeover of public enterprises, especially by foreign entrepreneurs, one of the first thing embarked upon is the massive training of local staff to improve their performance and bring them up to international standards. There is an astounding multiplier effect to the local economy when you have increased labour productivity through a more dynamic labour/work force that is technically competent.

Privatization will enable the flow of financial resources from the private sector to develop the economy at large. With privatization, the private sector becomes the engine of economic growth: for private entrepreneurs to achieve their objectives (which is to make a profit), they undertake huge investments to aid the future growth of their companies and hence the economy.

Recommendations

From the study, the following recommendations are made:

The government should employ a capable, efficient and skilled manpower that could assist in harnessing the natural resources through the services of private enterprise. Through this, economic self-reliance can be achieved.

The government should endeavor to invite "invisible hands" to assist in the production and distribution of goods and services that could assist in eliminating wastages, that has characterized the public sector in the country.

There should be adequate policy environment and institutional framework that can eliminate distortions in the country's economy. For privatization to work effectively, there is the need for the government to undertake adequate pre-privatization preparations before embarking on implementation.

Conclusion

For the economy of the Nation to grow, Nigerians must exercise patience for the ongoing privatization process in the country. Most public enterprises fail, not because they were publicly owned, but because of the way they were run. It is obvious that government cannot continue in this process, it is better it fully gives .out her shares such that competent hands run the affairs of the companies. Money meant for such publicly owned companies should be diverted to other areas, and also reduces the inefficiency and lack of transparency that have persisted in the public sector-Based on the huge demand on government, it is important and necessary for the government to institute the right environment to promote private investment, which will assist in complementary government's effect. For any economy to grow and to achieve economic self-reliance, only privatization properly done with good accountability and transparency, not in hands of dubious men or women can afford to achieve the target goals. More also in implementing privatization programme, it is important to establish a balance between the private sector, operators, the government, the workers, the consumers and international investors and other core-investors.

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